



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP AND GOVERNANCE**

**NMAC410: FINANCIAL MANAGEMENT 2**

**END OF SECOND SEMESTER EXAMINATION**

**APRIL 2022**

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**DURATION: 3 HOURS**

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### **INSTRUCTIONS**

You are required to answer questions as instructed

Answer **any four** questions

Start **each** question on a new page in your answer booklet

Credit will be awarded for logical, systematic and neat presentations

## QUESTION ONE

a) A company purchases a raw material from an outside supplier at a cost of \$9 per unit. The total annual demand for this product is 40000 units

|                       |        |
|-----------------------|--------|
| Holding cost per unit | \$1.00 |
|-----------------------|--------|

|                         |        |
|-------------------------|--------|
| Cost per purchase order | \$2.00 |
|-------------------------|--------|

Calculate the Economic Order Quantity (EOQ) **[5 marks]**

b) Assume that Lie Dharma Company produces rhinestone tiaras for sale to chain department stores. Lie Dharma Company uses 400 rhinestones per day, and the supplier can have the stones to Lie Dharma Company in four days.

Calculate the order point. **[3 marks]**

c) Assume that Lie Dharma Company never uses more than 500 rhinestones in one day.

Calculate safety stock and order point. **[5 marks]**

d) Explain the importance of establishing the order point, safety stock and EOQ of a business

**[12 marks]**

## QUESTION TWO

A project costs \$1 750 000 and is expected to have the following cash flows:

|      |   |             |
|------|---|-------------|
| Year | 1 | \$450 000   |
|      | 2 | \$600 000   |
|      | 3 | \$700 000   |
|      | 4 | \$875 000   |
|      | 5 | \$1 000 000 |

The firm only takes projects with a maximum payback period of 4 years

Calculate the following:

a) The project's the simple payback period. **[3 marks]**

b) The project's discounted payback assuming the cost of capital is 12% **[12 marks]**

c) Decide on whether the firm should take up the project or not **[4 marks]**

d) Evaluate the pay back method in project appraisal **[6 marks]**

### **QUESTION THREE**

Compare and contrast Capital Asset Pricing Model (CAPM) and Arbitrage Pricing Model. (APM) [25 marks]

### **QUESTION FOUR**

Evaluate any **three** dividend policies often used in financial management. [25 marks]

### **QUESTION FIVE**

Your company is going through financial distress, suggest and explain any **five** strategies that you can employ to manage the cash flows. [25 marks]

**END OF EXAMINATION**